

EMCLAIRE FINANCIAL CORP
Form 10-Q
November 10, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **September 30, 2014**

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: **001-34527**

EMCLAIRE FINANCIAL CORP

(Exact name of registrant as specified in its charter)

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Pennsylvania 25-1606091
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

612 Main Street, Emlenton, Pennsylvania 16373
(Address of principal executive offices) (Zip Code)

(844) 767-2311

(Registrant's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company as defined in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The number of shares outstanding of the Registrant's common stock was 1,772,158 at November 10, 2014.

EMCLAIRE FINANCIAL CORP

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PART I - FINANCIAL INFORMATION**Item 1. Interim Financial Statements**

Emclaire Financial Corp

Consolidated Balance Sheets

As of September 30, 2014 (Unaudited) and December 31, 2013

(Dollar amounts in thousands, except per share data)

	September 30, 2014	December 31, 2013
Assets		
Cash and due from banks	\$ 2,615	\$ 2,485
Interest earning deposits with banks	32,703	14,173
Cash and cash equivalents	35,318	16,658
Securities available for sale	150,321	117,304
Loans receivable, net of allowance for loan losses of \$5,130 and \$4,869	368,219	352,430
Federal bank stocks, at cost	2,791	3,977
Bank-owned life insurance	10,644	10,401
Accrued interest receivable	1,674	1,466
Premises and equipment, net	14,294	12,310
Goodwill	3,664	3,664
Core deposit intangible, net	798	965
Prepaid expenses and other assets	5,814	6,667
Total Assets	\$ 593,537	\$ 525,842
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest bearing	\$ 112,732	\$ 104,269
Interest bearing	407,176	327,737
Total deposits	519,908	432,006
Short-term borrowed funds	2,150	24,150
Long-term borrowed funds	15,000	20,000

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Accrued interest payable	217	292
Accrued expenses and other liabilities	8,321	4,322
Total Liabilities	545,596	480,770
Commitments and Contingent Liabilities	-	-
Stockholders' Equity:		
Preferred stock, \$1.00 par value, 3,000,000 shares authorized; Series B, non-cumulative preferred stock, \$5,000 liquidation value, 5,000 shares issued and outstanding	5,000	5,000
Common stock, \$1.25 par value, 12,000,000 shares authorized; 1,873,175 and 1,870,675 shares issued; 1,771,158 and 1,768,658 shares outstanding, respectively	2,341	2,338
Additional paid-in capital	19,650	19,478
Treasury stock, at cost; 102,017 shares	(2,114)	(2,114)
Retained earnings	25,148	23,650
Accumulated other comprehensive loss	(2,084)	(3,280)
Total Stockholders' Equity	47,941	45,072
Total Liabilities and Stockholders' Equity	\$ 593,537	\$ 525,842

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp

Consolidated Statements of Net Income (Unaudited)

For the three and nine months ended September 30, 2014 and 2013

(Dollar amounts in thousands, except per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Interest and dividend income:				
Loans receivable, including fees	\$ 4,140	\$ 4,114	\$ 12,259	\$ 12,411
Securities:				
Taxable	521	440	1,417	1,328
Exempt from federal income tax	244	314	763	875
Federal bank stocks	33	18	112	52
Interest earning deposits with banks	30	12	68	44
Total interest and dividend income	4,968	4,898	14,619	14,710
Interest expense:				
Deposits	616	662	1,784	2,305
Borrowed funds	174	198	503	590
Total interest expense	790	860	2,287	2,895
Net interest income	4,178	4,038	12,332	11,815
Provision for loan losses	163	143	508	438
Net interest income after provision for loan losses	4,015	3,895	11,824	11,377
Noninterest income:				
Fees and service charges	411	428	1,182	1,254
Commissions on financial services	8	48	31	187
Title premiums	16	6	40	55
Net gain on sales of available for sale securities	91	107	748	291
Net gain on sales of loans	-	9	-	9
Earnings on bank-owned life insurance	97	97	289	290
Other	306	307	911	877
Total noninterest income	929	1,002	3,201	2,963
Noninterest expense:				
Compensation and employee benefits	1,825	1,847	5,599	5,684
Premises and equipment	634	516	1,837	1,586
Intangible asset amortization	54	67	167	213
Professional fees	142	158	488	513

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Federal deposit insurance	90	99	266	307
Other	936	856	3,251	2,447
Total noninterest expense	3,681	3,543	11,608	10,750
Income before provision for income taxes	1,263	1,354	3,417	3,590
Provision for income taxes	241	272	675	711
Net income	1,022	1,082	2,742	2,879
Preferred stock dividends	25	115	75	365
Net income available to common stockholders	\$ 997	\$ 967	\$ 2,667	\$ 2,514
Basic earnings per common share	\$ 0.56	\$ 0.55	\$ 1.51	\$ 1.43
Diluted earnings per common share	0.56	0.54	1.49	1.42
Average common shares outstanding	1,770,821	1,762,810	1,770,128	1,761,972

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

For the three and nine months ended September 30, 2014 and 2013

(Dollar amounts in thousands)

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Net income	\$ 1,022	\$ 1,082	\$ 2,742	\$ 2,879
Other comprehensive income (loss)				
Unrealized gains (losses) on securities:				
Unrealized holding gain (loss) arising during the period	(194)	(800)	2,560	(5,271)
Reclassification adjustment for gains included in net income	(91)	(107)	(748)	(291)
	(285)	(907)	1,812	(5,562)
Tax effect	97	308	(616)	1,891
Net of tax	(188)	(599)	1,196	(3,671)
Comprehensive income (loss)	\$ 834	\$ 483	\$ 3,938	\$ (792)

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp

Condensed Consolidated Statements of Cash Flows (Unaudited)

For the nine months ended September 30, 2014 and 2013

(Dollar amounts in thousands)

	For the nine months ended September 30, 2014	2013
Cash flows from operating activities		
Net income	\$ 2,742	\$ 2,879
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	631	503
Provision for loan losses	508	438
Amortization of premiums, net	198	152
Amortization of intangible assets and mortgage servicing rights	168	213
Realized gains on sales of available for sale securities, net	(748)	(291)
Net gains on sales of loans	-	(9)
Net (gains) losses on foreclosed real estate	(11)	5
Originations of loans sold	-	(202)
Proceeds from the sale of loans	-	211
Restricted stock and stock option compensation	126	133
Increase in bank-owned life	(243)	(247)

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insurance, net				
Increase in accrued interest receivable	(208)	(74)
Decrease in prepaid expenses and other assets	232		1,159	
Decrease in accrued interest payable	(75	)	(137)
Increase in accrued expenses and other liabilities	3,999		644	
Net cash provided by operating activities	7,319		5,377	
Cash flows from investing activities				
Loan originations and principal collections, net	(16,619	)	(14,733)
Available for sale securities:				
Sales	22,462		21,015	
Maturities, repayments and calls	10,270		28,767	
Purchases	(63,189	)	(60,116)
Redemption (purchase) of federal bank stocks	1,186		(822)
Proceeds from the sale of foreclosed real estate	139		167	
Write-down of foreclosed real estate	-		19	
Additions to premises and equipment	(2,615	)	(2,692)
Net cash used in investing activities	(48,366	)	(28,395)
Cash flows from financing activities				
Net increase in deposits	87,902		(3,017)
Repayments on Federal Home Loan Bank advances	(5,000)	-	
Net change in short-term borrowings	(22,000	)	26,650	
Proceeds from exercise of stock	48		20	

options, including tax benefit				
Dividends paid	(1,243	)	(1,423)
Redemption of preferred stock (Series B)	-		(5,000)
Net cash provided by financing activities	59,707		17,230	
Increase (decrease) in cash and cash equivalents	18,660		(5,788)
Cash and cash equivalents at beginning of period	16,658		20,424	
Cash and cash equivalents at end of period	\$ 35,318		\$ 14,636	
Supplemental information:				
Interest paid	\$ 2,362		\$ 3,032	
Income taxes paid	245		140	
Supplemental noncash disclosure:				
Transfers from loans to foreclosed real estate	124		159	

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp

Consolidated Statements of Changes in Stockholders' Equity (Unaudited)

For the three and nine months ended September 30, 2014 and 2013

(Dollar amounts in thousands, except per share data)

	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Balance at beginning of period	\$ 47,457	\$ 49,613	\$ 45,072	\$ 51,725
Net income	1,022	1,082	2,742	2,879
Other comprehensive income (loss)	(188)	(599)	1,196	(3,671)
Stock compensation expense	42	34	126	133
Dividends declared on preferred stock	(25)	(115)	(75)	(365)
Dividends declared on common stock	(390)	(352)	(1,168)	(1,058)
Exercise of stock options, including tax benefit	23	-	48	20
Redemption of preferred stock (5,000 shares, Series B)	-	(5,000)	-	(5,000)
Balance at end of period	\$ 47,941	\$ 44,663	\$ 47,941	\$ 44,663
Common cash dividend per share	\$ 0.22	\$ 0.20	\$ 0.66	\$ 0.60

See accompanying notes to consolidated financial statements.

Emclaire Financial Corp

Notes to Consolidated Financial Statements (Unaudited)

1. Nature of Operations and Basis of Presentation

Emclaire Financial Corp (the Corporation) is a Pennsylvania corporation and the holding company of The Farmers National Bank of Emlenton (the Bank) and Emclaire Settlement Services, LLC (the Title Company). The Corporation provides a variety of financial services to individuals and businesses through its offices in Western Pennsylvania. Its primary deposit products are checking, savings and term certificate accounts and its primary lending products are residential and commercial mortgages, commercial business loans and consumer loans.

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, the Bank and the Title Company. All significant intercompany transactions and balances have been eliminated in preparing the consolidated financial statements.

The accompanying unaudited consolidated financial statements for the interim periods include all adjustments, consisting of normal recurring accruals, which are necessary, in the opinion of management, to fairly reflect the Corporation's consolidated financial position and results of operations. Additionally, these consolidated financial statements for the interim periods have been prepared in accordance with instructions for the Securities and Exchange Commission's (SEC's) Form 10-Q and Article 10 of Regulation S-X and therefore do not include all information or footnotes necessary for a complete presentation of financial condition, results of operations and cash flows in conformity with accounting principles generally accepted in the United States of America (GAAP). For further information, refer to the audited consolidated financial statements and footnotes thereto for the year ended December 31, 2013, as contained in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2013 filed with the SEC.

The balance sheet at December 31, 2013 has been derived from the audited financial statements at that date but does not include all the information and footnotes required by GAAP for complete financial statements.

The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, fair value of financial instruments, goodwill, real estate owned, the valuation of deferred tax assets and other-than-temporary impairment charges on securities. The results of operations for interim quarterly or year-to-date periods are not necessarily indicative of the results that may

be expected for the entire year or any other period. Certain amounts previously reported may have been reclassified to conform to the current year's financial statement presentation.

2. Participation in the Small Business Lending Fund (SBLF) of the U.S. Treasury Department (U.S. Treasury)

On August 18, 2011, the Corporation entered into a Securities Purchase Agreement (the Agreement) with the U.S. Treasury Department, pursuant to which the Corporation issued and sold to the U.S. Treasury 10,000 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series B (Series B Preferred Stock), having a liquidation preference of \$1,000 per share, for aggregate proceeds of \$10.0 million, pursuant to the U.S. Treasury's SBLF program. On September 17, 2013, with the approval of the Corporation's primary federal banking regulator, the Corporation redeemed 5,000 shares, or 50%, of its Series B Preferred Stock held by the U.S. Treasury at an aggregate redemption price of \$5.0 million, plus accrued but unpaid dividends. Following this redemption, the Treasury holds 5,000 shares of the Series B Preferred Stock, representing a remaining liquidation value of \$5.0 million.

The Series B Preferred Stock is entitled to receive non-cumulative dividends payable quarterly on each January 1, April 1, July 1 and October 1, beginning October 1, 2011. The dividend rate, which is calculated on the aggregate liquidation amount, was initially set at 5% per annum based upon the current level of Qualified Small Business Lending (QSBL) by the Bank at that time. The dividend rate in the subsequent periods for the first two and one-half years through the quarter ending December 31, 2013 was based upon the percentage change in qualified lending between each dividend period and the baseline QSBL level established at the time the Agreement was entered into. Such dividend rate varied from 1% to 5% per annum. For the two year period beginning January 1, 2014, the dividend rate is fixed at a rate of 2% per annum. If the Series B Preferred Stock remains outstanding for more than four-and-one-half years, beginning January 1, 2016, the dividend rate will be fixed at 9%. The dividend rate was 2.0% and 5.0%, respectively, for the quarters ended September 30, 2014 and 2013. Such dividends are not cumulative, but the Corporation may only declare and pay dividends on its common stock (or any other equity securities junior to the Series B Preferred Stock) if it has declared and paid dividends for the current dividend period on the Series B Preferred Stock, and will be subject to other restrictions on its ability to repurchase or redeem other securities.

Holders of the Series B Preferred Stock have the right to vote as a separate class on certain matters relating to the rights of holders of Series B Preferred Stock and on certain corporate transactions. Except with respect to such matters, the Series B Preferred Stock does not have voting rights.

The Corporation may redeem the shares of Series B Preferred Stock, in whole or in part, at any time at a redemption price equal to the sum of the liquidation amount and the per-share amount of any unpaid dividends for the then-current period, subject to any required prior approval by the Corporation's primary federal banking regulator. If redeemed in part, payments are required to be at least 25% of the original issuance.

3. Earnings per Common Share

Basic earnings per common share (EPS) excludes dilution and is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted EPS

includes the dilutive effect of additional potential common shares for assumed issuance of restricted stock and shares issued under stock options.

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3. Earnings per Common Share (continued)

The factors used in the Corporation's earnings per common share computation follow:

(Dollar amounts in thousands, except for per share amounts)	For the three months ended		For the nine months ended	
	September 30, 2014	2013	September 30, 2014	2013
Earnings per common share - basic				
Net income	\$ 1,022	\$ 1,082	\$ 2,742	\$ 2,879
Less: Preferred stock dividends	25	115	75	365
Net income available to common stockholders	\$ 997	\$ 967	\$ 2,667	\$ 2,514
Average common shares outstanding	1,770,821	1,762,810	1,770,128	1,761,972
Basic earnings per common share	\$ 0.56	\$ 0.55	\$ 1.51	\$ 1.43
Earnings per common share - diluted				
Net income available to common stockholders	\$ 997	\$ 967	\$ 2,667	\$ 2,514
Average common shares outstanding	1,770,821	1,762,810	1,770,128	1,761,972
Add: Dilutive effects of assumed issuance of restricted stock and exercise of stock options	16,410	13,616	14,709	12,777
Average shares and dilutive potential common shares	1,787,231	1,776,426	1,784,837	1,774,749
Diluted earnings per common share	\$ 0.56	\$ 0.54	\$ 1.49	\$ 1.42
Stock options and restricted stock awards not considered in computing diluted earnings per share because they were antidilutive	66,000	67,000	67,000	67,000

4. Securities

The following table summarizes the Corporation's securities as of September 30, 2014 and December 31, 2013:

(Dollar amounts in thousands)	Gross Amortized	Gross Unrealized	Gross Unrealized	Fair
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	Cost	Gains	Losses	Value
Available for sale:				
September 30, 2014:				
U.S. Treasury and federal agency	\$ 3,470	\$ -	\$ (39)) \$3,431
U.S. government sponsored entities and agencies	35,448	19	(213)	) 35,254
U.S. agency mortgage-backed securities: residential	37,664	565	-	) 38,230
U.S. agency collateralized mortgage obligations: residential	38,730	21	(965)	) 37,785
State and political subdivisions	31,668	688	(152)	) 32,204
Corporate debt securities	2,006	-	(7)	) 2,000
Equity securities	2,356	190	-	) 2,546
	\$ 151,342	\$ 1,482	\$ (1,376)	) \$151,449
December 31, 2013:				
U.S. Treasury and federal agency	\$ 4,466	\$ -	\$ (298)	) \$4,168
U.S. government sponsored entities and agencies	23,637	-	(745)	) 22,892
U.S. agency mortgage-backed securities: residential	11,020	341	-	) 11,361
U.S. agency collateralized mortgage obligations: residential	41,751	2	(2,031)	) 39,722
State and political subdivisions	36,657	830	(988)	) 36,499
Corporate debt securities	250	-	(9)	) 241
Equity securities	2,356	131	(66)	) 2,421
	\$ 120,137	\$ 1,304	\$ (4,137)	) \$117,304

4. Securities (continued)

The following table summarizes scheduled maturities of the Corporation's debt securities as of September 30, 2014. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities and collateralized mortgage obligations are not due at a single maturity and are shown separately.

(Dollar amounts in thousands)	Available for sale	
	Amortized Cost	Fair Value
Due in one year or less	\$55	\$56
Due after one year through five years	42,026	41,871
Due after five through ten years	27,992	28,191
Due after ten years	2,519	2,453
Mortgage-backed securities: residential	37,664	37,892
Collateralized mortgage obligations: residential	38,730	37,314
	\$148,986	\$147,777

Information pertaining to securities with gross unrealized losses at September 30, 2014 and December 31, 2013, aggregated by investment category and length of time that individual securities have been in a continuous loss position are included in the table below:

(Dollar amounts in thousands)	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Description of Securities						
September 30, 2014:						
U.S. Treasury and federal agency	\$ -	\$ -	\$ 3,338	\$ (132)	\$ 3,338	\$ (132)
U.S. government sponsored entities and agencies	15,396	(64)	18,698	(292)	34,094	(356)
U.S. agency mortgage-backed securities: residential	7,534	(58)	-	-	7,534	(58)
U.S. agency collateralized mortgage obligations: residential	2,740	(31)	34,574	(1,385)	37,314	(1,416)
State and political subdivisions	559	(1)	11,030	(207)	11,589	(208)
Corporate debt securities	1,993	(13)	-	-	1,993	(13)
	\$ 28,222	\$ (167)	\$ 67,640	\$ (2,016)	\$ 95,862	\$ (2,183)
December 31, 2013:						
U.S. Treasury and federal agency	\$ 4,168	\$ (298)	\$ -	\$ -	\$ 4,168	\$ (298)
U.S. government sponsored entities and agencies	22,891	(745)	-	-	22,891	(745)
	33,805	(1,729)	4,982	(302)	38,787	(2,031)

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U.S. agency mortgage-backed securities:

residential

State and political subdivisions	13,262	(988)	-	-	13,262	(988)
Corporate debt securities	242	(9)	-	-	242	(9)
Equity securities	1,142	(66)	-	-	1,142	(66)
	\$ 75,510	\$ (3,835)	\$ 4,982	\$ (302)	\$ 80,492	\$ (4,137)

Gains on sales of available for sale securities for the three and nine months ended September 30 were as follows:

(Dollar amounts in thousands)	For the three months ended September 30,		For the nine months ended September 30,	
	2014	2013	2014	2013
Proceeds	\$ 903	\$ 17,701	\$ 22,462	\$ 21,015
Gains	91	107	748	291
Tax provision related to gains	31	36	254	99

4. Securities (continued)

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic, market or other conditions warrant such evaluation. Consideration is given to: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions and (4) whether the Corporation has the intent to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis. If the Corporation intends to sell an impaired security, or if it is more likely than not the Corporation will be required to sell the security before its anticipated recovery, the Corporation records an other-than-temporary loss in an amount equal to the entire difference between fair value and amortized cost. Otherwise, only the credit portion of the estimated loss on debt securities is recognized in earnings, with the other portion of the loss recognized in other comprehensive income. For equity securities determined to be other-than-temporarily impaired, the entire amount of impairment is recognized through earnings.

There were no equity securities in an unrealized loss position as of September 30, 2014. There were 111 debt securities in an unrealized loss position as of September 30, 2014, of which 83 were in an unrealized loss position for more than 12 months. Of these 111 securities, 6 were U.S. Treasury securities, 28 were U.S. government sponsored entity and agency securities, 5 were U.S. agency mortgage-backed securities, 27 were U.S. agency collateralized mortgage obligations, 41 were state and political subdivision securities and 4 were corporate debt securities. The unrealized losses associated with these securities were not due to the deterioration in the credit quality of the issuer that would likely result in the non-collection of contractual principal and interest, but rather have been caused by a rise in interest rates from the time the securities were purchased. Based on that evaluation and other general considerations, and given that the Corporation's current intention is not to sell any impaired securities and it is more likely than not it will not be required to sell these securities before the recovery of its amortized cost basis, the Corporation does not consider the debt securities with unrealized losses as of September 30, 2014 to be other-than-temporarily impaired.

5. Loans Receivable and Related Allowance for Loan Losses

The Corporation's loans receivable as of the respective dates are summarized as follows:

(Dollar amounts in thousands)	September 30, 2014	December 31, 2013
Mortgage loans on real estate:		
Residential first mortgages	\$ 105,647	\$ 105,541
Home equity loans and lines of credit	88,515	87,928
Commercial real estate	109,517	101,499
	303,679	294,968
Other loans:		

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Commercial business	60,507	53,214
Consumer	9,163	9,117
	69,670	62,331
Total loans, gross	373,349	357,299
Less allowance for loan losses	5,130	4,869
Total loans, net	\$ 368,219	\$ 352,430

During the three months ended September 30, 2014, the Corporation purchased four syndicated national credits (SNCs) each having a principal amount of \$1.0 million. The SNCs were purchased for a total of \$4.0 million plus a net premium of \$15,000 and other costs totaling \$11,000 which are being amortized over the lives of the loans. The SNCs are recorded as commercial business loans and are collateralized by all business assets of the individual borrowers. These credits have been assigned allowance for loan losses equal to 125% of the Corporation's normal allowance allocation for commercial business loans until sufficient historical performance data can be collected and analyzed.

5. Loans Receivable and Related Allowance for Loan Losses (continued)

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary as of September 30, 2014:

(Dollar amounts in thousands)

Impaired Loans with Specific Allowance

	As of September 30, 2014			For the three months ended September 30, 2014		Cash Basis Interest Recognized in Period
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized in Period	
Residential first mortgages	\$171	\$ 171	\$ 28	\$ 172	\$ 1	\$ 1
Home equity and lines of credit	-	-	-	-	-	-
Commercial real estate	3,681	2,740	223	2,724	3	-
Commercial business	2,372	2,372	445	2,291	-	-
Consumer	-	-	-	-	-	-
Total	\$6,224	\$ 5,283	\$ 696	\$ 5,187	\$ 4	\$ 1

For the nine months
ended September 30, 2014

	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	\$ 126	\$ 10	\$ 10
Home equity and lines of credit	-	-	-
Commercial real estate	2,673	16	-
Commercial business	1,250	53	-
Consumer	-	-	-
Total	\$ 4,049	\$ 79	\$ 10

Impaired Loans with No Specific Allowance

	As of September 30, 2014	For the three months ended September 30, 2014

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	Unpaid Principal Balance	Recorded Investment	Average Recorded Investment	Interest Income Recognized in Period	Cash Basis Interest Recognized in Period
Residential first mortgages	\$ 116	\$ 116	\$ 117	\$ -	\$ -
Home equity and lines of credit	-	-	-	-	-
Commercial real estate	1,269	870	980	-	-
Commercial business	52	52	240	-	-
Consumer					